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Market convergence and advertising standardization in the European Union

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Abstract

In this study, we draw on industrial organization and institutional research to explore the relationship between market convergence and standardization of advertising programs. We argue that environmental isomorphism, which maintains that the external market environment is a principal driver of firms' institutional structures, places pressure on firms to adapt their organizational structures and strategies to changing institutional conditions. We propose that the convergence associated with European market integration will lead firms to emphasize three advertising strategies: creating a uniform brand image, appealing to cross market segments, and increasing cost performance in advertising. Further, we hypothesize that these strategies will be associated with an overall tendency to standardize advertising strategy and execution. Results of a survey of managers of subsidiaries of Japanese and U.S. firms operating in the EU suggest that firms that believe the EU is converging are more likely to engage in these standardized advertising strategies. Additionally, our findings suggest that firms that seek to create a uniform brand image and appeal to cross market segments are more likely to standardize their overall advertising programs. Finally, we find that firms' desire to create a uniform brand image is a function of their goal of building brand equity, regardless of the level to which markets converge. We draw implications for research and practice regarding firm responses to market convergence.

“In the ruthless search for marketing efficiencies, increasing standardization of policies and procedures is *de rigueur* for the world's well known brands - and now even for the less familiar ones. If standardization in supply chain and logistics management have become an increasing factor in the day to day

business-side of operations, then so has the need to ensure that a company's often diverse and intricate marketing plans have a high level of across the board measurement and standardization”

(Michael Lee, Executive Director, International Advertising Association, personal communication, 2007).

1. Introduction

Economic integration among major world regions such as the European Union (EU), North American Free Trade Agreement (NAFTA) and the Association of South-East Asian Nations (ASEAN) has intensified pressures on multinational corporations (MNCs) to

integrate their global operations. These agreements and the harmonization of laws, regulations, and business practices they facilitate have provided opportunities for accomplishing this integration through streamlining and consolidating operations and standardizing strategies. Bartlett and Ghoshal's (1989) seminal contribution highlighted the ongoing challenge among MNCs of how to manage the competing demands of global integration and local responsiveness. Since then, scholars and practitioners have wrestled with questions surrounding the conditions under which firms can standardize practices and products across their global operations and those for which they should substantially tailor their strategies to context-bound local conditions (Harzing, 2000; Johnson, 1995). One dimension of this challenge relates to firms' market strategies and in particular, the question of whether and how to standardize versus localize advertising.

Standardization versus localization of advertising messages has long been the subject of considerable debate. One of the central motivations for MNCs to standardize advertising is to seek a homogeneous image of the firm and its brand in multiple markets. It is widely believed that a uniform brand image across markets can enhance global brand equity (Cateora & Graham, 2004). Potential economic benefits related to cost savings are also believed to be an advantage of standardization, as is the ability to appeal to cross-market segments (Taylor, 2002). The trade-offs between these benefits and adapting to local tastes, preferences, and use conditions have received a great deal of attention from both academicians and practitioners.

However, the degree of progress made in understanding standardization of advertising has been questioned. Taylor (2002) argues that too often, prior studies have focused only on whether to standardize or to localize in a given market as opposed to which aspects of advertising can be standardized and under what conditions. There have been relatively few empirical studies that examine standardization of advertising from the perspective of advertising managers. An issue that remains largely unexplored is whether perceptions of the external market environment in which the MNC operates play a central role in determining whether firms implement standardized advertising.

The strategic management literature suggests that firms are likely to formulate their strategies in line with external market conditions (Venkatraman & Prescott, 1990). However, there is little evidence as to whether managers perceive environmental changes as drivers of their advertising strategy formulation. This study

attempts respond to that gap by examining the international advertising strategies of Japanese and U.S. firms operating in European markets, with a specific focus on issues related to the desirability and feasibility of standardized advertising. As a conceptual framework, we adopt the industrial organization (IO) perspective of strategic management theory which emphasizes environment-strategy coalignment. Our basic premise lies in the assumption that the convergence of the European Union (EU) Member States should act as a driver of companies' strategies.

In this study, we seek to contribute to the literature in three ways. First, we assess the level to which standardized advertising is practiced in Europe, and the motivations companies have for doing so. Second, we examine the thinking of U.S. and Japanese firms in planning advertising strategy for Europe; as such, we offer the possibility of examining whether general perceptions of the level of integration of the EU are similar. Testing a model on companies based on nations with distinct cultures allows for a stronger test of a generalizable model. Third, a general criticism of international advertising studies is a lack of theoretical framework. To address this question, our study proposes an environmental-strategy coalignment framework based on the industry organization. In doing so, we construct a latent-based causal model, which is examined via structural equation modeling. In focusing on the perceptions of U.S. and Japanese firms of EU market integration, we are able to offer a more robust test of our theoretical model. This examination allows us to assess whether EU markets have become similar enough to facilitate the implementation of more global marketing efforts by non-EU firms.

The remainder of the paper is organized as follows. We begin with an overview of EU integration and an outline of our theoretical framework. We then introduce our research model and associated hypotheses. Then, we present our methodology and results, and provide an interpretative discussion of those results. We conclude with identification of research and managerial implications, limitations, and suggestions for future research.

2. The impact of European integration on consumer culture

The current EU represents the culmination of years of effort toward greater European unity, dating back to the post-war period in which Europe had to rebuild itself (Cunningham, 2000). Over the years, the EU has gradually grown from an initial membership of 6 25 member countries by 2004. To ensure effective

functioning from this continued growth, EU decision making has been streamlined and the Treaty of Nice (effective 1 February 2003) imposed new rules governing EU institutions. Despite the recent rejection of the European Constitutions by France and the Netherlands ([Washington Post, 2005](#)), it has been argued that as the integration process has continued many “foreign” firms tend to perceive Europe as one cohesive market and thus operate on a pan-European basis ([Briones, 1998](#); [Jouan, 2004](#)).

The enlargement of the EU has allowed many firms to conduct business in multiple countries, instead of

limiting themselves to a single country. The absence of border bureaucracy has cut delivery times and reduced costs, while deregulation has also extended into transportation, telecommunications, and financial services. In fact, as many as 46 percent of EU companies report that integration has had a positive effect on their business ([European Union, 2005](#)). Exporting companies are the most enthusiastic, with 76 percent of those exporting to more than five EU countries believing that the more integrated market has helped to boost their cross-border sales. Thus, considerable evidence appears to indicate that the recent progress of economic and

Table 1
Literature review on recent international advertising research

Authors (year)	Regions studied	Survey method	Sample size	Major findings
Harris (1994)	Europe	Telephone interview	38 MNCs' executives	There is an increasing pressure to standardize advertising, while a relatively small number of companies practice total standardization. The more confident firms are with their experience, the higher the level of standardization. The modifications are motivated primarily by a perceived need to adapt to differences in local market conditions
Duncan and Ramaprasad (1995)	35 countries	Mail survey and personal interviews	100 advertising agencies' top executives	Practitioners consider “single brand image” the most important reason to standardize, while “saving money” is one of the least important. The lower use of standardization in execution is necessitated by cultural preferences and taboos, while the lower use of standardization by non Western agencies may be due to the fact that standardization is largely a Western concept
O'Donnell and Jeong (2000)	U.S.A., Canada, UK, Germany, and Japan	Mail survey	100 subsidiaries of scientific measuring instruments	Global standardization can lead to superior performance in the context of high tech industries. The subsidiary managers' functional experience in marketing was found to strengthen the performance performance relationship
Sirisagul (2000)	U.S.A., Japan, and Europe	Mail survey	97 MNCs' headquarters	There are no significant differences in either use or degree of standardization among MNCs from the U.S., Japan, and Europe. Global advertising practices of the leading MNCs might have variations so similar that the results could not expose differences
Laroche et al. (2001)	U.S.A., Germany, UK, France, Japan, etc.	Mail survey	119 MNCs	For all countries, the degree of control is higher for strategic than for operational decisions. Advertising decisions are made by headquarters in France, by a combination of headquarters and multinational agency in Germany, and by local agencies in the UK
Kanso and Nelson (2002)	Finland and Sweden	Mail survey	95 local subsidiaries' Executives	Government regulations are impeding broadcast media selection for standardized campaigns. The worldwide expansion of satellite TV creates greater demand for standardized advertising

political integration should favor the use of uniform marketing strategy across the EU.

More scholars now argue that there is evidence of the existence of a single European market as a result of the unification process (Leefflang & van Raaij, 1995). Much attention has been paid to whether unification has led to a greater possibility of pan-European marketing. Thus, some studies have examined the extent to which advertising can be standardized across Europe. Table 1 summarizes some key recent studies of standardized advertising. While these studies have reached somewhat different conclusions about the factors contributing to standardized advertising, there is a clear consensus that theoretical models that help us better understand the conditions under which firms are more prone to standardize advertising are needed (Taylor, 2002).

While there is widespread agreement that there has been movement toward convergence within the EU and elsewhere, thereby allowing for the use of more standardized approaches (e.g., Duncan & Ramaprasad, 1995; Harris, 1994; Özsomer & Simonin, 2004), some consumer researchers have questioned the extent to which consumers are becoming more homogenous (Boddewyn & Grosse, 1995; de Mooij, 2004; Diamantopoulos, Schlegelmilch, & Du Preez, 1995; Kahle, Beatty, & Mager, 1994). Consumer culture theory (CCT) emphasizes heterogeneity that exists both within and across cultures. As noted by Arnould and Thompson (2005, p. 868), CCT is not a unified theory, but rather, “a family of theoretical perspectives that address the dynamic relationship between consumer actions, the marketplace, and cultural meanings.” This perspective does not view culture as a homogeneous set of shared meanings, but rather emphasizes differences among consumers in the context of globalization. For example, Maffesoli (1996) suggests that rapid economic development and globalization have created a global trend toward individualism and a desire to engage in consumption behaviors that emphasize distinctiveness. In response to these conditions, consumers participate in passing and changing collectivistic behaviors which are based on common leisure activities and lifestyle interests (Arnould & Thompson, 2005; Firat & Venkatesh, 1995). While the exact implications of CCT on global marketing and advertising strategy have not been articulated, it suggests a complex process that may get in the way of standardization and traditional models of market segmentation.

Because of skepticism among some scholars about the degree to which consumer preferences are becoming more similar, it is worthwhile to examine whether *managers* perceive markets and consumers to be

converging to the point where standardized advertising can be used. Thus, this study examines the degree to which managers perceive consumers (as well as several other environmental- and market-based factors) as becoming more similar, in addition to the conditions in which standardization is appropriate.

3. Industrial organization theory and environment-strategy coalignment

In explaining the relationship between EU convergence and MNCs' advertising standardization, this study adopts industrial organization (IO) theory, which has been frequently used in explaining the alignment between the external environment and firm strategy. This theory is based on the structure conduct performance paradigm, which suggests that market or industry performance is determined by various market structure variables (Venkatraman & Prescott, 1990; Wirth & Bloch, 1995). That is, firms are most likely to identify the defining variables of external market characteristics, and choose strategies that provide the greatest correspondence between them (Özsomer & Simonin, 2004).

In applying IO theory in international marketing, Zou and Cavusgil (2002) examined the relationship between marketing standardization and performance. In particular, Zou and Cavusgil's (2002) global marketing strategy (GMS) theory posits that global marketing strategy is composed of eight dimensions: product standardization, promotion standardization, distribution standardization, pricing standardization, along with factors related to coordinating value-adding activities. In their model, the notion of “fit” is emphasized. Here, fit refers to the degree to which a company's global marketing strategy matches its external environment and internal organizational resources. Zou and Cavusgil found that strategic and financial performance was maximized in cases where the fit between external market factors and internal organizational characteristics was conducive to a global marketing strategy.

On the other hand, little attention has been paid to the influence of environment-strategy coalignment on MNCs' advertising strategy. Given that Zou and Cavusgil (2002) defined promotion standardization as one of the GMS dimensions, the principle of “fit” between a firm's strategy and its environment may well be applicable to advertising management. In the context of Europe, the acceleration of EU convergence may provide a clearer example of how environmental change may affect strategy formulation and implementation.

The literature suggests that advertising standardization cannot occur without “consistent” market condi-

tions across countries (Jain, 1989). Firms tend to seek customers who share similar needs and wants, and sometimes attempt to identify an intermarket (i.e., cross-market) segment for more effective targeting (ter Hofstede, Steenkamp, & Wedel, 1999). In the same vein, perceived similarity in advertising regulations and media availability has been pointed to as an important incentive for the use of uniform advertising strategy (Duncan & Ramaprasad, 1995). In addition, given the increasing homogeneity of European markets, the level of competition in those markets is thought to be increasing.

In line with IO theory and GMS, these environmental conditions are thought to influence firms' strategic orientations (Jain, 1989; Venkatraman & Prescott, 1990). "Strategic orientation" refers to the firms' *patterns* of key strategic resource deployments, which in turn lead to a specific *conduct*. An important perspective from IO theory is the concept of environmental isomorphism (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Environmental isomorphism refers to the tendency of firms to become more homogenous in structure over time if they face similar environments. The underlying mechanism for isomorphism in this context is the imitation of social and cultural norms that collectively define social reality (Scott, 1994). As noted by Handelman & Arnold (1999, p. 34), "To become institutionalized and thus legitimated, organizations mimic the norms in their environments. In this way, organizations in a given field come to reflect their environments and one another, which results in institutional isomorphism." Further, organizations facing the same environmental conditions will become more homogenous over time (Dacin, 1997).

For our purposes, environmental isomorphism suggests that firms will adapt and conform to the prevailing

institutional conditions in the environment in which they operate; to the degree market conditions in the EU become more similar, firms serving that market will tend to become more similar in this strategic approach to that market. Thus, we would expect firms to begin to react similarly in making strategic decisions. This assertion is consistent with Hannan and Freeman's (1989) conceptualization of competitive isomorphism, which supplements the ideas of institutional isomorphism as expressed above. Hannan and Freeman (1989) emphasized that new organizations with structures that are more efficient in the emerging environment will "squeeze out" organizations with older, less efficient forms (Hannan & Freeman, 1989). As new forms succeed, they gain legitimacy in the overall population and spur the creation of similar organizations (Carroll & Hannah, 1989).

In the context of this study, we would expect environmental isomorphism to cause firms to implement similar strategies to the extent that similar environmental variables exist. One conduct variable is the behavior of the firm with respect to advertising strategies (Ferguson & Ferguson, 1994; Wirth & Bloch, 1995). This study aims at capturing three primary strategic orientations: the creation of a uniform brand image, the execution of cross-border segmentation, and the desire to improve cost performance. The three strategic orientations are not mutually exclusive, and it has been argued that each of these orientations is consistent with the use of standardized advertising. Our conceptual model is presented in Fig. 1. Below, we describe the variables in our model.

3.1. Environmental variables (EU convergence)

In this study, EU convergence is measured by a second-order model. The factors that collectively

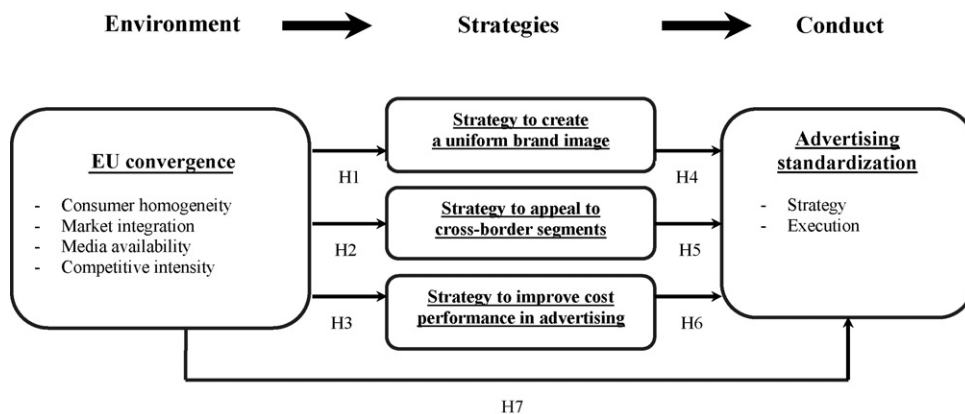


Fig. 1. Research model.

comprise perceptions of EU convergence are consumer homogeneity, market integration, media availability, and competitive conditions. The first two of these factors are central to the model in that they reflect perceived similarity in consumer behavior and the similarity of economic conditions across Europe. Prior research shows these factors to be particularly important. The first factor, consumer homogeneity is reflective of findings that increasing homogeneity of consumers across industrialized nations has been an important determinant of the feasibility of advertising standardization (Duncan & Ramaprasad, 1995; Levitt, 1983). In a recent exploration, Samiee, Jeong, Pae, & Tai (2003) found that advertising managers' perceptions of consumer homogeneity among Chinese-speaking markets significantly affects the level of advertising standardization in this region. Similarly, EU integration has been said to produce "a blending of lifestyles and growing uniformity that will progressively minimize traditional geographical and political boundaries" (Ganesh, 1998, p. 44). In contrast to consumer culture theory, which would emphasize that consumer heterogeneity will still exist, even in the face of EU convergence, IO and the GMS perspective posit that greater consumer homogeneity would lead to the use of more standardized advertising strategies.

The degree to which companies perceive market integration to occur across EU Member States to be similar is also a key factor in our model. If firms perceive European markets to be alike in terms of factors such as economic development, market conditions, and educational levels, they are likely to adopt strategies that are best suited for or take advantage of such homogeneity (Ganesh, 1998).

A third factor related to convergence is media availability. To the extent that similar advertising media are available at similar costs, and similar marketing and media research studies can be conducted across markets, standardization would become more feasible. While there has been general movement towards a more integrated EU in terms of the availability of various media, some have observed that differences remain (Keown, Synodinos, & Jacobs, 1992). For example, satellite TV and radio are less common in Britain, while larger percentages of the advertising budget were spent on magazines and newspapers. However, from an overall perspective, technological convergence within the European Union has accelerated in recent years. For example, the proliferation of the Internet and broadband connection, and the deregulation of telecommunication industry have substantially improved media availability while

enabling cross-national media buying practice (Tharp & Jeong, 2001; Wijnholds, 1999).

A final factor related to convergence is competitive intensity. Unlike the other factors mentioned above, it could be argued that this factor may be likely to actually decrease the tendency to standardize advertising. As the European Union has moved toward greater integration, it seems plausible that EU markets are more sought after than ever. As a result of competing against numerous and powerful competition in EU markets, firms may be obliged to attempt to tailor advertising strategy to host markets in an attempt to better meet consumer wants and needs, thus abandoning standardization of advertising (Hout, Porter, & Rudden, 1982; Papavassiliou & Stathakopoulos, 1997). It could be counter-argued that, even in the face of more intense competition, firms may still want to standardize in order to create a uniform image across the markets and to lower advertising costs. Nevertheless, it is likely that some firms feel a pull to tailor their messages to local markets in the face of stiff competition.

3.2. Strategic orientation: creating a uniform brand image

Research on advertising standardization has found that for many MNCs, building a uniform brand image across markets is the single most important reason to standardize, while "saving money" is less important (Duncan & Ramaprasad, 1995). In this vein, Harris (1994) contends that achieving uniformity of the global image and message is a key consideration of advertising standardization by MNCs operating in European markets. Similarly, Sirisagul (2000) found that U.S. firms see building a uniform brand image worldwide as one of their primary objectives, while Japanese firms are concerned with both creating brand awareness and building a uniform brand image. Turnbull, Turnbull, and Balabanis (2000) reported that the most valued advantage of standardization is to provide a consistent brand image across markets.

In Europe, academics and practitioners have long heralded the need of for the pan-European brands (Ganesh, 1998). Therefore, it is reasonable to assume that, as a consequence of the EU convergence, firms operating in European markets desire more strongly to create a uniform brand image. Hence, the following hypothesis:

Hypothesis 1. The greater a firm's perception of increasing convergence in the EU, the greater its tendency to follow a strategy to create a uniform brand image.

3.3. Strategic orientation: appealing to cross-border segments

Market segmentation plays a critical role in the firm's international strategy (Jain, 1989; Kale & Sudharshan, 1987; Walters & Toyne, 1989). Specifically, searching target countries for the presence of cross-border segments has been increasingly important. Cross-border segments are segments that transcend national borders and share common dimensions, via which firms can formulate common marketing strategies for a product or brand (Jain, 1989; Samiee & Roth, 1992). In such cross-border segments, customers are likely to share "uniform" characteristics, in terms of needs, preferences, lifestyles, and tastes and habits (Boddewyn, Soehl, & Picard, 1986; Duncan & Ramaprasad, 1995; Jain, 1989; Onkvisit & Shaw, 1987).

Consistent with Levitt's (1983) argument of greater worldwide consumer homogeneity, Batra, Myers, and Aaker (1996, p. 7171) contend that, "There are clearly cases when the same consumer segment exists in many countries across the world, though obviously to different degrees." Many advertising agencies have attempted to identify segments that cut across countries (Aurifeille, Quester, Lockshin, & Spawton, 2002; Hassan, Craft, & Kortam, 2003; ter Hofstede et al., 1999). Thus, it is worthwhile to explore whether firms believe that it is important to target cross-national segments. Therefore, we posited that:

Hypothesis 2. The greater a firm's perception of increasing convergence in the EU, the greater its tendency to follow a strategy to appeal to cross-border segments.

3.4. Strategic orientation: improving cost performance in advertising

Prior research suggests that cost reduction is one of the most important benefits of advertising standardization (Levitt, 1983). As global markets are more and more competitive, firms are under constant pressure to increase their cost performance in marketing. In particular, advertising production and media buying costs may be a significant component of marketing budget. In this regard, because of the introduction and circulation of a common currency, euro, firms that operate in European markets can now seek lower costs across borders, diversifying their production needs without any currency risk. There are also likely to be synergies associated with media buying (Wijnholds, 1999). These forces are likely to lead to more effective

cost performance in advertising. Therefore, we posit that:

Hypothesis 3. The greater a firm's perception of increasing convergence in the EU, the greater its tendency to follow a strategy to increase cost performance in advertising.

3.5. Advertising standardization

Standardized advertising is clearly one key component of global marketing strategy. As a result, Zou and Cavusgil's (2002) GMS theory would predict that firms would attempt to implement global advertising strategies in the absence of major obstacles to doing so. In the context of this study, our basic premise lies in the expectation that as firms perceive convergence, they will follow strategies consistent with the benefits of standardization. The use of these strategies, will, in turn, be related to the level to which advertising is standardized. Because the literature on standardization has reached a consensus that many advertisers standardize strategy even when executions need to be adapted (Taylor, 2002), it is important to measure standardization of both strategy and execution.

In light of the environment-strategy coalignment thesis, we argue that advertising standardization is a managerial conduct directed by the strategic orientations of the firm. As the literature indicates, the extent of advertising standardization varies according to the environmental factors. Therefore, this is not a yes no decision, but a continuum of two extreme ends consisting complete standardization and adaptation (Mueller, 1991). We contend that the extent of advertising standardization is calibrated by three primary strategic orientations, that is, the creation of a uniform brand image, the search of cross-border segments, and the improvement of cost performance in advertising. Thus, we propose that:

Hypothesis 4. The desire to create a uniform brand image is positively related to advertising standardization.

Hypothesis 5. The desire to appeal to cross-market segments is positively related to advertising standardization.

Hypothesis 6. The desire to improve cost performance is positively related to advertising standardization.

Finally, our model examines whether there is a direct effect between EU convergence and advertising standardization.

Hypothesis 7. The greater a firm's perception of increasing convergence in the EU, the greater its tendency to follow a strategy to standardize advertising.

4. Data, methods and results

4.1. Sample

We selected U.S. and Japanese firms from the *Forbes* 500 (Forbes, 2003) and the *Database for Japanese Multinational Firms* (Kobe University, 2003), respectively. Our objective was to choose representative firms that have extensive foreign investment operations in European markets. Then, we attempted to identify subsidiaries for each firm in five European countries: the UK, France, Germany, Italy, and the Netherlands. As shown in Table 2, the chosen countries are considered to consist of important markets within the EU, and have significant advertising expenditure in both an aggregate and per capita level. The *Directory of American Firms Operating in Foreign Countries* (1999) and the *Database for Japanese Multinational Firms* (Kobe University, 2003) were used to identify subsidiaries. In total, we identified 574 firms.

4.2. Survey

Questionnaires and cover letters were originally prepared in English, and later translated into the local languages following the translation back translation method suggested by Craig and Douglas (2000). A team of translators with substantial experience was formed in order to ensure accuracy of translation. Mailings consisted of questionnaires and cover letters in two languages (English and the local language) and a prepaid envelope.

Three waves of mailing were conducted. We received 38 and 69 responses from U.S. and Japanese firms,

respectively. The response rate was approximately 21 percent. This number, though not high, compares favorably to similar academic surveys of top executives (Menon, Bharadwaj, Adidam, & Edison, 1999). Non-response bias was assessed using time trend analysis by applying a multivariate analysis of variance (MANOVA) using the three mailing periods as independent and the construct means as dependent variables (Armstrong & Overton, 1977). This method assumes that persons responding later are more similar to non-respondents. The MANOVA found no significant difference among the three mailing periods in terms of the response fluctuations. Table 3 summarizes the characteristics of the respondents according to the country examined.

4.3. Measures

Some questionnaire items were developed drawing on prior research (e.g., Laroche, Kirpalani, Pons, & Zhou, 2001; Samiee et al., 2003), while several scales were newly developed for this study. The scales were pre-tested on both academic researchers as well as business practitioners. The questionnaire included some descriptive questions, such as subsidiary size, type of business, and international experience, which were measured on categorical scales. All of the remaining constructs were measured using multiple-item, 7-point Likert scales. All questionnaire items are shown in Appendix A.

4.4. Second-order factor model for EU convergence and advertising standardization

EU convergence was deemed to be directly unobservable, and was hypothesized to contain the four sub-dimensions of consumer similarity, market integration, competitive condition, and media availability. On this basis, a second-order factor model was formulated in order to test whether each of these

Table 2
Countries studied

Countries	GDP ^a	GDP ^b per capita	Advertising expenditure ^c	Advertising as % of GDP	Ad spend per capita ^d
UK	1334.6	22,239	16,970	1.19	289
France	1804.9	30,493	8,590	.66	145
Germany	2701.6	32,822	16,578	.90	202
Italy	1225.3	22,239	6,998	.64	121
Netherlands	502.5	31,432	3,339	.88	207

World Advertising Resource Center (2003).

^a Billions of US\$.

^b US\$, constant 1995 prices.

^c US\$, millions.

^d US\$.

Table 3
Characteristics of the respondents (%)

	UK (n 35)	France (n 26)	Germany (n 23)	Italy (n 15)	Netherlands (n 8)	Total (n 107)
Size of the subsidiary ^a						
€100 mil>	31.4	34.6	17.4	40.0	37.5	30.8
€100 €499 mil	37.1	34.6	56.5	46.7	37.5	42.1
€500 €999 mil	8.6	3.8	4.3	6.7	25.0	7.5
€1 bil<	22.9	26.9	21.7	6.7	0.0	19.6
Total						100.0
Type of business ^b						
Durable goods	34.3	53.8	26.1	53.3	25.0	39.3
Non durable goods	11.4	3.8	13.0	6.7	12.5	9.3
Industrial goods	48.6	34.6	56.5	26.7	62.5	44.9
Services	5.7	7.7	4.3	13.3	0.0	6.5
Total						100.0
International experience ^c						
5 years>	0.0	3.8	0.0	13.3	0.0	2.8
6 10 years	5.7	15.4	0.0	6.7	0.0	6.5
11 20 years	17.1	19.2	8.7	6.7	0.0	13.1
21 49 years	60.0	26.9	47.8	53.3	12.5	44.9
50 years<	17.1	34.6	43.5	20.0	87.5	32.7
Total						100.0

^a χ^2 16.59, d.f. 16, p .413.

^b χ^2 10.27, d.f. 12, p .592.

^c χ^2 33.43, d.f. 16, p .006.

subdimensions is related to the EU convergence. To test the second-order factor model of EU convergence, we conducted a confirmatory factor analysis via AMOS 5.0 with maximum likelihood method. All the proposed items loaded significantly on the corresponding factors, and all the paths were statistically significant at $p < .05$. Furthermore, the fit indexes indicate an acceptable model fit: $\chi^2_{101} = 202.1$ ($p < .001$), CFI = .86, and IFI = .86. Thus, this procedure demonstrates that all the paths from EU convergence to consumer homogeneity, market integration, competitive intensity, and media availability are statistically significant, supporting our four dimensional measure of EU convergence.

Next, the same procedure was repeated, and a confirmatory factor analysis was run for the second-order model for the advertising standardization construct using the maximum likelihood method. The model consists of standardized strategy and executions. The resulting fit indexes are more than acceptable: $\chi^2_{20} = 66$ ($p < .001$), CFI = .90, and IFI = .90.

4.5. Overall measurement model assessment

As shown in Fig. 1, our research model consists of five constructs, namely EU convergence, strategy to create a uniform brand image, strategy to appeal to

cross-border segments, strategy to improve cost performance in advertising, and advertising standardization. Following the procedures described by Özsomer and Simonin (2004), we calculated the mean value of the subdimensions of the two second-factor models, EU convergence and advertising standardization, with an attempt to reduce the final model to a first-order model. The Pearson's correlations between the relevant constructs, along with mean values and standard deviations, are shown in Table 4.

Following Anderson and Gerbing (1988), a two-step procedure was adopted in which we first test the measurement model and then estimate the structural model. In order to estimate the reliability and validity of this model, the overall measurement model was assessed with maximum likelihood method. A confirmatory factor analysis indicates a good fit: $\chi^2_{109} = 206.7$ ($p < .001$), CFI = .87, and IFI = .88. All the items loaded corresponding factors, with loadings greater than .50 (Table 5).

Cronbach's alpha was calculated for each construct, all of which exceeded the minimum recommended level of .70 (Hair, Tatham, Anderson, & Black, 1998; Nunnally, 1978), with the exception of media availability. As shown in Table 6, the composite reliability and the average variance extracted for all the five constructs exceeded .80 and .50, respectively, exceed-

Table 4
Means, standard deviations, and correlations

Constructs	M	S.D.	1	2	3	4	5	6	7	8
1. Consumer homogeneity	4.01	1.15	1.00							
2. Market integration	3.92	1.01	.60**	1.00						
3. Media availability	4.14	.91	.50**	.61**	1.00					
4. Competitive intensity	5.86	.89	.18	.23*	.36**	1.00				
5. Strategy to create a uniform brand image	4.42	1.16	.27**	.09	.12	.05	1.00			
6. Strategy to appeal to cross border segments	4.44	1.21	.40**	.24	.14	.10	.09	1.00		
7. Strategy to improve cost performance in advertising	4.80	1.16	.10	.09	.22*	.16	.01	.45**	1.00	
8. Advertising standardization	4.28	1.12	.28**	.14	.27**	.29**	.36**	.28**	.18	1.00

* Correlation is significant at $p < .05$ (two tailed).

** Correlation is significant at $p < .01$ (two tailed).

ing the normally recommended level of .50 (Hair et al., 1998). Thus, we concluded that the reliability was established, while discriminant and convergent validity was confirmed.

Lastly, because our sample consists of both U.S. and Japanese firms, we conducted a two-group invariance analysis. In this procedure, a t -value was calculated for all the parameters (i.e., regression weights) between the U.S. and Japanese models by assigning equal constrains. This procedure detected differences for parameters only in 3 out of 12 regression weights at $p < .05$. Although perfect invariance between the two models is ideal, partial invariance was deemed to be sufficient to proceed with the structural model assessment (Steenkamp & Baumgartner, 1998).

4.6. Structural model assessment

Our structural model was tested using the maximum likelihood method, which produced significant χ^2 value at $p < .001$. Other indexes suggest a reasonable fit of the model: CFI = .87, IFI = .87, and RMSEA = .091. Thus, the hypotheses were tested in evaluating the structural model which involved the significance of estimated standard coefficients (Table 7).

Hypotheses 1-3 address the paths from EU convergence to three strategic orientations, that is, strategy to create a uniform brand image, strategy to appeal to cross-border segments, and strategy to improve cost performance in advertising. The results indicate that the paths to the cross-border segments and to cost performance were statistically significant at $p = .018$ and $.005$, respectively.

Table 5
Confirmatory factor analysis of the overall measurement model

Paths	Standardized coefficient	Critical ratio	p
EU convergence → consumer homogeneity	.725	6.465	***
EU convergence → market integration	.796	6.719	***
EU convergence → media availability	.747		
EU convergence → competitive intensity	.343	3.171	.002
Advertising standardization → standardized strategy	.801		
Advertising standardization → standardized execution	.844	7.096	***
Strategy to create a uniform brand image → Item 1	.628		
Strategy to create a uniform brand image → Item 2	.695	6.293	***
Strategy to create a uniform brand image → Item 3	.986	6.240	***
Strategy to appeal to cross border segments → Item 4	.338		
Strategy to appeal to cross border segments → Item 5	.781	3.337	***
Strategy to appeal to cross border segments → Item 6	.823	3.368	***
Strategy to appeal to cross border segments → Item 7	.887	3.400	***
Strategy to improve cost performance in advertising → Item 8	.557		
Strategy to improve cost performance in advertising → Item 9	.829	5.797	***
Strategy to improve cost performance in advertising → Item 10	.894	5.901	***
Strategy to improve cost performance in advertising → Item 11	.654	5.076	***

Note: maximum likelihood method. CFI: composite fit index, IFI: incremental fit index, RMSEA: root mean square error of approximation. Fit indexes: χ^2 206.7, d.f. 109, $p < .001$; CFI .87, IFI .88, RMSEA .092. *** $p < .0001$.

Table 6

Reliability scores

Constructs	Cronbach's alpha	Composite reliability	Average variance extracted
Consumer homogeneity	.87		
Market integration	.71		
Media availability	.65		
Competitive intensity	.78		
EU convergence	.74	.96	.53
Strategy to create a uniform brand image	.81	.82	.61
Strategy to appeal to cross border segments	.78	.84	.50
Strategy to improve cost performance in advertising	.80	.84	.51
Advertising standardization	.80	.82	.57

Table 7

Structural model results

Hypothesized paths	Standardized coefficient	Standard error	Critical ratio	<i>p</i>
EU convergence → strategy to create a uniform brand image	.199	.193	1.847	.065
EU convergence → strategy to appeal to cross border segments	.256	.216	2.368	.018
EU convergence → strategy to improve cost performance in advertising	.300	.198	2.779	.005
Strategy to create a uniform brand image → advertising standardization	.323	.074	3.352	***
Strategy to appeal to cross border segments → advertising standardization	.352	.067	3.576	***
Strategy to improve cost performance in advertising → advertising standardization	.030	.071	.320	.749
EU convergence → advertising standardization	.248	.159	2.126	.034

Note: Maximum likelihood method. CFI: composite fit index, IFI: incremental fit index, RMSEA: root mean square error of approximation. Fit indexes: χ^2 193.60, d.f. 96, $p < .001$; CFI .87, IFI .87, RMSEA .091. *** $p < .0001$.

However, the path to the uniform brand image was not significant at $p < .05$. Thus, [Hypotheses 1 and 3](#) were supported, but [Hypothesis 2](#) was not supported.

Next, we tested [Hypotheses 4 and 5](#), which focus on the influence of strategy to create a uniform brand image and to appeal to cross-border segments, respectively. Both hypotheses were supported. However, [Hypothesis 6](#), which is the path from strategy to improve cost performance to advertising standardization was not supported ($p = .749$). This indicates that while the search for cross-border segments and the creation of a uniform brand image are two primary motives to adopt standardized advertising, cost factors have negligible effects on such a decision, at least in a European context.

Finally, the path from EU convergence to advertising standardization was tested. This effect was significant ($p = .034$) and, thus, [Hypothesis 7](#) is supported. In terms of the structural relationship between EU convergence and advertising standardization, its direct effect ([Hypothesis 7](#)) as well as indirect effects through strategy to appeal to cross-border segments ([Hypotheses 3 and 5](#)) were significant. Therefore, the total effect of EU convergence on advertising standardization is .338, which is the sum of its direct effect and the product of its two indirect effects ([Schumacker & Lomax, 1996](#)).

The results of hypotheses testing are summarized in [Table 8](#).

Table 8

Summary of hypotheses testing

Hypotheses	Results
H1: EU convergence → strategy to create a uniform brand image	Not supported
H2: EU convergence → strategy to appeal to cross border segments	Supported
H3: EU convergence → strategy to improve cost performance in advertising	Supported
H4: Strategy to create a uniform brand image → advertising standardization	Supported
H5: Strategy to appeal to cross border segments → advertising standardization	Supported
H6: Strategy to improve cost performance in advertising → advertising standardization	Not supported
H7: EU convergence → advertising standardization	Supported

5. Implications, limitation, conclusions and suggestions for future research

5.1. Research implications

This study examined the relationship between perceptions of EU convergence (environment), strategies followed, and conduct in terms of level of standardization. Consistent with the environment-strategy coalignment theory proposition, the results indicate that there does appear to be a relationship between convergence and the core dimensions of advertising standardization. Collectively, these results suggest that greater convergence is likely to be associated with higher levels of advertising standardization among MNCs. Five of the seven hypothesized relationships in our model were supported, suggesting that perceptions of EU convergence do, indeed, have an impact on firms' likelihood of standardizing their advertising. Our results also suggest that U.S. and Japanese firms tend to perceive the EU convergence similarly.

In general, our findings appear to be consistent with the perspective provided by environment-strategy coalignment based on the industrial organization theory. When firms perceive a "fit" between an external environment and their internal capability of effectively implementing a strategy, they are more likely to follow that strategy. In the context of this study, we find that firms that see convergence are more likely to follow two of three strategies associated with standardization. Thus, the environment-strategy coalignment theory proposition that standardized strategies are more likely to be followed when there is a fit between the environment and internal capabilities is consistent with the findings of this study.

Where this fit was not as close was in the relationship between the recognition of market convergence and strategies designed to create a uniform brand image, and in the relationship between the desire to cut costs and therefore standardize advertising.

5.2. Managerial implications

Our results suggest that managers recognize they must respond to the challenges of convergence, but that they are still grappling with how to translate that recognition into specific strategies. Firms from both the United States and Japan appear to acknowledge that convergence is underway; however, they have yet to embrace full standardization of their advertising strategies. Our findings suggest that managers' perceptions of convergence as reflected in consumer homo-

geneity, market integration, media availability, and competitive conditions are comprehensive and inclusive in that they incorporate multiple dimensions of convergence. While this would appear to imply a similarly comprehensive approach to standardization, our standardization construct was not found to be similarly inclusive. It would appear that some managers are hesitant to fully adopt standardization and may be missing potential cost saving opportunities as a result. In converging environments, it is likely that managers can, and should, take advantages of all of the benefits of standardization, including cost savings.

It is also possible that some managers may be holding back on implementing strategy as a result of continued doubts about the future of convergence, as evidenced by the French and Dutch referenda on the EU constitution. According to the Bartlett and Ghoshal framework, standardization is only possible in certain industry and country contexts; if European consumers are retaining strong heterogeneous tastes and preferences, standardization may not be rational. It appears that at least some EU managers will not take full advantage of the trend toward convergence until they are very confident that it is a long-term, sustainable trend.

With the context of advertising regulation, it is apparent that while there is a trend toward convergence in the EU, the pace of that convergence is relatively slow, and some key differences remain. For example, in the United Kingdom, OFCOM recently passed a complete ban on the advertising of food that has high fat, salt, and/or sugar content (Hall, 2006). While this ban is not in effect in other EU nations, there is clearly a trend toward stricter regulation of food advertising toward children across the EU, as evidenced by the European Commission adopting a Green Paper on tackling obesity that addresses the role of advertising and whether self-regulation is sufficient (International Advertising Association, 2006). Another example of an EU-wide trend is the increasing focus on co-regulation, in which a government body works closely with self-regulatory groups for the purposes of promulgating and enforcing advertising regulation (Brown, 2006). A recent study by the Hans-Bredow-Institut (2005) concluded that co-regulation is an effective mechanism for implementing EU directives, particularly in areas involving advertising and the protection of children.

While the pace of convergence of advertising regulation may be slow, it is a good example of an area where it is clear that the environment is becoming more similar. Thus, firms that are reluctant to engage in standardized advertising when they can feasibly do so

may lose out on an important opportunity. To the extent that EU convergence progresses, it is very likely that firms that implement standardization strategies will realize an advantage in terms of strategic and financial performance, as recent research suggests a link between standardized strategies and performance (e.g., Okazaki, Taylor, & Zou, 2006).

It should be stressed that some companies do appear to have recognized the potential of standardization in a converging environment. The observations of Eric H. Buxbaum, a former Senior Vice President of Unilever who had responsibility for Personal and Homecare Products, suggest that his firm was on the front end of future trends in advertising strategy. "We had reasons to be on the front end. In our internal analysis we had a number of clues that our advertising was not as good as it could have been (moderate success of some brands in some markets, lower than expected shares of ad awards etc.). One of the objectives of our category reorganization was to benefit better from scale and scope and to concentrate our resources on fewer and stronger innovation units. . . Within this context we also tried to standardize advertising: at least for global brands, we strove for stronger global advertising as we believed strongly in concentrating our resources to create better, more efficient great advertising." Buxbaum pointed out that, "taking all these decisions is not easy, as countries feel they are losing control over the marketing budgets and their freedom to do advertising." (Buxbaum, 2007, personal correspondence).

Taken together, the above points suggest that managers' perceptions of convergence appear to be congruent with the empirical record of progress in EU integration. However, it is also apparent that not all companies follow Unilever's lead with regard to standardized advertising. It is also likely that non-indigenous managers such as the U.S. and Japanese executives we surveyed would be slower to respond to standardization pressures and opportunities than would indigenous (European) ones. Hence, their strategies may lag those of EU firms.

In our research, the perceptions of convergence are not yet leading to the full reality of advertising standardization and its attendant benefits. In a sense, some managers appear to be saying one thing but doing another. This "gap" constitutes the unrealized potential of standardization: increased economies of scale and scope and the ability to leverage advertising dollars to their maximum effect. Hence, managers should acknowledge convergence where it is occurring and allow it to more fully drive their advertising standardization practices.

5.3. Limitations

While the study does have the advantage of testing the perceptions of both Japanese and U.S. subsidiaries, generalizations are limited by the single continent survey focused on only two nationalities. It must also be noted that our findings are based on managerial perceptions of convergence and the level to which their advertising is standardized. While this is a limitation of the study, prior research from the strategic management literature suggests that managers' perceptions of important outcome measures is closely linked to actual performance (e.g., Robinson & Pearce, 1988; Venkatraman & Ramanujam, 1986).

In terms of theory testing, it should also be noted that our study purports to test only one element of standardized strategy; that is, advertising standardization. In addition, there are other issues that may affect national advertising styles, including actual media consumption patterns, specific types of advertising regulations, and cultural issues, are not part of the model. While this was due to the concern that bounded rationality may influence the ability of managers to assess the level to which convergence is occurring, future research examining these issues could be insightful.

5.4. Conclusions and suggestions for future research

Future research should continue to examine perceptions of convergence in the European Union and across other markets. Additional research on the extent to which firms attempt to create a uniform brand image, appeal to cross-market segments, and save costs through standardization is also warranted. Furthermore, as suggested by Zou and Cavusgil (2002), research that addresses outcome measures associated with global strategies is needed. For example, the issue of the impact of what an effective standardized campaign should do for a company in terms of brand equity needs to be explored in more depth.

While the contribution of standardized advertising to financial performance was partially confirmed in this study, more research on measuring return on investment from global campaigns are needs. In fact, research explicitly exploring dimensions of global advertising effectiveness would be highly useful. Given that advertising standardization is a strategy variable that should be driven by both external and internal forces, future research should look at firms' managerial capabilities in the area of advertising (e.g., creative strategy; research effectiveness; media planning; client

relations) and assess which are most closely linked to performance.

Finally, the interaction of global and regional integration would be an important avenue for future research. Some scholars and analysts have argued that MNCs should focus on regional strategies before seeking to integrate their global operations (Rugman & Verbeke, 2004). To what extent are firms integrating global as well as regional marketing strategies? Do regions such as NAFTA and EU serve as building blocks for worldwide consolidation of marketing and other strategies? How does advertising standardization contribute to overall strategic positioning of the firm?

Research directed toward these and other questions can help to shed further light on the competitive challenges firms face in rapidly integrating and consolidating market environments.

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Appendix A. Measures

Consumer homogeneity

- The customers in the European markets we serve are similar across borders
- We appeal to similar target segments in the European markets in which we do business
- Consumers have similar lifestyles in the European markets in which we operate
- Consumers have similar tastes and habits in the European countries in which we operate
- Consumers have similar levels of product knowledge in the European markets in which we operate

Market integration

- The European markets we operate in are at similar levels of economic development
- European markets have generally become more homogeneous due to economic unification of the EU
- Similar competitive intensity exists across the European markets in which we do business

Media availability

- Similar advertising media are available in these markets
- Similar market research studies can be conducted across these markets
- Media costs are similar across these markets
- Advertising agencies with global networks are available in these markets

Competitive intensity

- We face powerful competitors in these markets
- There is a great deal of competition in these markets
- There are a large number of competitors who are seeking the European markets in which we do business

Strategy to create a uniform brand image

- We have achieved a uniform image for our brand
- We have been effectively executing a global strategy
- We have created and reinforced a strong global image for our brand

Strategy to appeal to cross border segments

- We believe that standardized ads can accommodate the increased mobility of consumers within the EU
- We believe that standardized ads can attract consumers with similar characteristics across borders
- We believe that standardized ads can reach multicultural segments beyond national boundaries

Strategy to improve cost performance in advertising

- We want to save costs by using similar advertising campaigns in the markets in which we do business
- We can spend the promotional budget more efficiently if our advertising is standardized
- We can save on the costs of producing advertising if we use standardized advertising
- We can save on the costs of media buys if we use standardized advertising

Standardized strategy

- We use the same general strategy for our ads in all the countries in which we advertise
- The main ideas or themes are similar across the European markets in which we advertise
- We use a similar budgeting process in the European markets in which we advertise

Appendix A (Continued)

Consumer homogeneity

- The customers in the European markets we serve are similar across borders
- We appeal to similar target segments in the European markets in which we do business
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Standardized strategy

- We use the same general strategy for our ads in all the countries in which we advertise
- The main ideas or themes are similar across the European markets in which we advertise
- We use a similar budgeting process in the European markets in which we advertise
- We use similar media strategies across the markets in which we advertise

Standardized execution

- We use the same advertising execution for all the European countries in which we advertise
- We use uniform copy and textual information for our ads in all the European countries in which we advertise
- We use a uniform visual image for our ads in all the European countries in which we advertise
- We use similar creative strategies in all the European countries in which we advertise

Note: All items have scale anchors: 1 strongly disagree, 7 strongly agree.

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